

## Message Text

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ORIGIN NEA-07

INFO OCT-01 SS-14 ISO-00 PM-03 L-01 DODE-00 NSC-05 NSCE-00

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NEA/ARP:FDICKMAN

L/NEA:KHUFFMAN (SUBS)

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O 290131Z JAN 76

FM SECSTATE WASHDC

TO AMEMBASSY AMMAN IMMEDIATE

INFO AMEMBASSY JIDDA IMMEDIATE

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LIMDIS FOR AMBASSADOR

E.O. 11652: GDS

TAGS: MASS, JO, US

SUBJECT: JORDAN'S HAWK FINANCING PROBLEM

REF: (A) AMMAN 497, (B) JIDDA 638

1. FOLLOWING FOR YOUR INFO AND USE WITH GOJ IS EXPLANATION OF HOW JORDAN'S HAWK FINANCING PROBLEM CAME ABOUT AND DESCRIPTION OF WHERE MATTERS NOW STAND. PARAS 7 THROUGH 9 BELOW INDICATE WHAT USG IS PREPARED TO DO IN ORDER TO GRANT GOJ ADDITIONAL TIME TO EXTRACT NECESSARY FUNDS FROM SAUDIS.

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2. NO RPT NO FUNDS HAVE BEEN ADVANCED BY DOD TO DATE IN CONNECTION WITH FMS CASES UPZ (HAWK HARDWARE), URS (HAWK TRAINING), CTD AND CTE (HAWK SUPPLY SUPPORT AND SPARE PARTS) AS NOTED IN ITEM 21 ON PAGE 1 OF EACH LOA (DD FORM 1513), TERMS OF SALE IN ALL FOUR CASES WERE WRITTEN AS DEPENDABLE UNDERTAKINGS OF TYPE KNOWN AS "CODE FOUR" (SEC 22 OF FMS ACT), UNDER WHICH GOJ IS REQUIRED TO DEPOSIT FUNDS WITH U.S. ARMY AT SUCH TIME AND IN SUCH AMOUNTS AS ARE REQUIRED TO MEET ALL PAYMENT REQUIREMENTS (INCLUDING CANCELLATION COSTS) OF THE U.S. CONTRACTOR, IN ADVANCE OF TIME SUCH PAYMENTS ARE DUE. NOTE 24 OF LOA FOR CASE UPZ (PAGE 12, DD FORM 1513) STIPULATES THAT DOWN PAYMENT OF DOLS 35

MILLION IS DUE FROM GOJ AT TIME OF LOA'S ACCEPTANCE, WITH NINE REMAINING PAYMENTS SPREAD OUT OVER 25-MONTH PERIOD BEGINNING MAY 1976.

3. ABOVE METHOD OF FINANCING PRECLUDES NECESSITY TO USE ANY USG (ARMY) FUNDS TO MAKE PAYMENTS TO CONTRACTORS. THE STATUS OF CASH BALANCES IN CERTAIN ARMY PROCUREMENT ACCOUNTS MAKES IT UNACCEPTABLE TO PROVIDE FINANCING FROM ARMY FUNDS FOR A PROGRAM AS LARGE AS I-HAWK. ARMY IS UNDER SEVERE PRESSURE FROM CONGRESS AND GAO REGARDING STATUS OF THESE ACCOUNTS, WHICH IN SOME INSTANCES HAVE HAD NEGATIVE CASH BALANCES IN US TREASURY. DOD HAS MADE MAJOR CONCESSIONS IN GRANTING LIMITED 120-DAY PAYMENT DETERMINATIONS FOR VULCAN AND VEHICLE PROGRAMS ALREADY. TO HAVE DONE LIKEWISE FOR I-HAWK PROGRAM WOULD PLACE DOD/ARMY IN AN UNTENABLE POSITION BECAUSE OF THE MAJOR DOLLAR VALUE OF THAT PROGRAM.

4. CURRENT PROBLEM STEMS FROM FACT THAT DOD--FOLLOWING JAF ACCEPTANCE OF ABOVE-MENTIONED HAWK LOANS (UPZ ON DEC. 7, URS ON DEC. 16 AND CTD AND CTE ON DEC. 7) AND ON ASSUMPTION THAT EARLY JORDANIAN DOWN PAYMENTS WOULD BE FORTHCOMING AS RESULT OF GOJ-SAG DISCUSSIONS IN PROGRESS IN LATE DEC. 1975--ON JAN. 2, 1976 REQUESTED U.S. ARMY TO IMPLEMENT AND ISSUE CONTRACTS FOR CASE UPZ (HAWK HARDWARE) IN ADVANCE RPT IN ADVANCE OF JORDANIAN DOWN PAYMENT. THIS WAS DONE IN ORDER TO (A) AVOID PRICE ESCALATIONS WHEREVER

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POSSIBLE (A PROBLEM WITH WHICH JAF IS ALL TOO FAMILIAR IN PAST FMS CASES), AND (B) ENABLE PROCUREMENT OF LONG-LEAD-TIME HAWK ITEMS TO BEGIN (SO AS TO ENSURE THAT FUTURE DELIVERY SCHEDULES WOULD BE MET). DOD HAD BEEN ADVISED BY EMBASSY AMMAN THAT JAF UNDERSTOOD AND APPROVED THIS COURSE OF ACTION.

5. ON BASIS OF FOREGOING, CONTRACTS WERE AWARDED TO

RAYTHEON UNDER WHICH THAT COMPANY HAS RIGHT TO SUBMIT INVOICES FOR "PROGRESS PAYMENTS" IN ACCORDANCE WITH TERMS OF SALE DESCRIBED PARA 2 ABOVE. U.S. ARMY LEARNED ONLY ON JAN. 22 THAT RAYTHEON PLANS TO SUBMIT FIRST OF SUCH INVOICES (AMOUNTING TO DOLS ONE RPT ONE MILLION) ON JAN. 29, TO BE FOLLOWED BY ADDITIONAL INVOICES (AMOUNTING TO UP TO DOLS 30 MILLION) BETWEEN JAN. 29 - APRIL 1. JORDANIAN DOWN PAYMENT WOULD ORDINARILY HAVE COVERED THESE COSTS AS STIPULATED BY "CODE FOUR" TYPE OF DEPENDABLE UNDERTAKING IN FMS CASE UPZ. IN REALITY, HOWEVER, U.S. ARMY WILL BE BILLED BY RAYTHEON AND NO JORDANIAN FUNDS ARE YET ON DEPOSIT. DOD CAN LEGALLY UNDERTAKE TO ADVANCE

NECESSARY "PROGRESS PAYMENTS"(BY DRAWING ON ITS OWN RESOURCES)ONLY BY PROCESSING AN EXCEPTIONAL DETERMINATION THAT WOULD PERMIT FURTHER JORDANIAN PAYMENT DELAY FOR A LIMITED PERIOD (SEE PARAS 7-9 BELOW).

6. SITUATION DESCRIBED ABOVE IS WHAT COMPELLED US TO SEND STATE 19614. SINCE THEN, OWING TO REALITIES OF SITUATION, DOD HAS ARRANGED 30-DAY WAIVER, DESCRIBED BELOW.

7. YOU MAY INFORM APPROPRIATE JORDANIANS THAT ARRANGEMENTS ARE UNDER WAY AT DOD WHICH WILL PROVIDE AUTHORITY TO DELAY PAYMENT OF THE AMOUNTS DUE UNDER CASES UPZ, URS, CTD AND CTE UNTIL 29 FEB. 76 (I.E., LAST DUE DATE IS FEB. 29).

8. THE JORDANIANS SHOULD BE REMINDED THAT THIS EXTENSION WILL INCREASE THEIR EXPOSURE FOR TERMINATION CHARGES (ALREADY ESTIMATED AT DOLS TWO RPT TWO MILLION IN LATE JANUARY) SHOULD THE PROGRAM HAVE TO BE CANCELLED AT A SECRET

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LATER DATE. DOD WILL KEEP YOU REGULARLY INFORMED OF ESTIMATED COST OF TERMINATION DURING ENSUING DAYS.

9. IT IS OBVIOUSLY IMPERATIVE THAT SAUDI FUNDING BE OBTAINED BY JORDANIANS DURING THIS PERIOD, AND THAT PROPER AMOUNTS BE PLACED ON DEPOSIT. (FYI: THIS 30-DAY WAIVER, INVOLVING A DETERMINATION OF NATIONAL INTEREST UNDER SECTION 22 OF FMSA, IS USED ONLY RARELY AND WITH GREAT RELUCTANCE, AND IT WILL UNDOUBTEDLY ATTRACT CLOSE CONGRESSIONAL SCRUTINY. END FYI).

10. FOR JIDDA: YOU ARE AUTHORIZED TO DRAW ON BACKGROUND INFO CONTAINED PARAS 2 THROUGH 5 ABOVE IF SAUDI AUTHORITIES SHOULD APPROACH YOU FOR FULLER EXPLANATION OF GENESIS OF PROBLEM. KISSINGER

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